

Can Empty Offices Become Affordable Housing? New Legislation Seeks to Try

By Andrea Riquier, Market Watch, August 19, 2021

Too much commercial space, not enough residential

As the 2020 coronavirus lockdowns ground America to a halt, a few early prognostications rang out. [“New York is dead,”](#) one pundit declared. [“Are we going to work from home forever?”](#) asked the New York Times. And plenty of publications, this one included, predicted that [business travel would never go back to what it once was.](#)

One year later, New York is decisively not dead — but some of the other questions remain unanswered. Business travel was just starting to recover when the delta variant sparked a wave of [industry event cancellations](#). And there’s broad consensus that some variation of remote work also is likely here to stay, if not every day of every week. Add to that backdrop a housing affordability crisis, and interest in converting empty offices for residential use seems only natural. A bill introduced in Congress in July, the [Revitalizing Downtowns Act](#), shows the appeal of that idea.

The legislation, from Sens. Debbie Stabenow and Gary Peters with their fellow Michiganander Rep. Dan Kildee, would create [a new 20% tax credit per year to help cover about a fifth of the costs](#) of converting office buildings to residential, commercial or mixed-use properties. Residential conversions would be required to incorporate affordable housing.

“As our workplaces change because of the COVID-19 crisis, we will see more unused buildings in our downtowns. Converting these buildings to residential and mixed-use properties will benefit families and our cities,” Stabenow said in a release.

“It’s a really interesting idea and certainly worthy of pursuit,” said Buzz Roberts, president of the National Association of Affordable Housing Lenders. “Clearly there’s great need for affordable rentals, but there are existing resources for that. The question is, are those tools workable or do we need more?”

Some of those existing tools include the Low-Income Housing Tax Credit, which [MarketWatch profiled](#) in 2017, and which Sen. Ron Wyden, a Democrat from Oregon who chairs the Senate Finance Committee, has [recently proposed expanding](#).

There also have been some pandemic-era local responses, such as the New York State [“Housing Our Neighbors with Dignity act,”](#) which passed the legislature in 2021 but was not signed by Governor Andrew Cuomo.

Commercial real estate experts told MarketWatch that the national tax credit targeted for conversions could be helpful.

“I do think this makes sense,” said Rob Goldstein, a portfolio manager for CenterSquare Investment Management. “Converting office to residential has been done, but it’s tough. You need the right type of office, and even then, economically, it might not make sense, but if there are projects on the edge, something like this could potentially push it over the edge. There’s too much old office space, which will wind up like B-malls in a few years.”

Getting a sense of the housing affordability crisis is straightforward. The national median rent increased 8.1% in the 12 months to June, [according to Realtor.com](#) data. (Realtor.com is a property of News Corp, parent of MarketWatch publisher Dow Jones.) That’s much faster than wage growth — when people are employed at all. As the New York State legislation notes, “homelessness in New York City hit a record 20,000 people in shelters as of October 2020.”

What’s a little harder to quantify is what a new tax credit could mean for various metros’ empty or underused commercial space. In emailed remarks, a spokesperson for commercial real estate firm CBRE told MarketWatch that the city with the most vacant space is Dallas-Fort Worth, at about 25%, but that’s close to its long-term historical average, whereas New York City’s vacancy rate is about half that, but elevated compared to its historical norm.

In Lansing, Mich., meanwhile, outright vacancy was never an issue until COVID hit — but the tax credit could still mean a world of difference. The city, home to the Michigan state capital, has seen its office building usage plummet during the pandemic, and sees an opportunity to make the most of the crisis.

“We rely on thousands of people to be downtown,” Mayor Andy Shor said in an interview. Only now, he said, are some state workers are starting to trickle back, but only a few days a week, for most of them.

“It would be a huge benefit to be able to convert the space to housing because people would be living in downtown on nights and weekends, it wouldn’t just be state employees who are there only during the day.”

A broad office-residential shift could be transformative, Shor said, sparking a small-business service sector that’s open all the time.

“We don’t have the same affordable housing problems that some other communities have, but we’d like to have it downtown,” he said. “Especially for people working for the government just out of college. There need to be more options.”

That’s key to any affordable-housing strategy, Roberts noted. “You might say, in fact this is as much a neighborhood stabilization strategy as an affordable housing strategy because of all the spillover effects of vacant and underused properties on the surrounding area.”